NEWSLETTER

November 2017

QUAY FINANCIAL PLANNING

Introduction

Welcome to our November newsletter.

In this newsletter, we look again at the property and share markets, examining a recent reduction in auction clearance rates and what that might mean for demand across Australia's housing markets. We also explore the role of banks in the Australian sharemarket, using them to explain why the month of October was a good one for Australian shareholders.

We also reproduce two articles published on our website last month. Both discuss intergenerational financial planning, which was October's theme.

As ever, please let us know what you think of this newsletter and all of our other communications. As you look through our website, you will see that we invest heavily in providing useful, informative material to all of our clients. If there is something that you would like us to discuss, please let us know.

Did You Know… the month of November

November has always been an important month in Australian history. In 1880, bushranger Ned Kelly was hanged for killing three policeman. Exactly 38 years later, the First World War ended with 60,000 Australians among the dead. In happier news, in 1861 the first Melbourne Cup was run – on a Thursday. It did not move to the first Tuesday in November until 1875, by which time the race had already given rise to a public holiday for public servants and bank staff in Melbourne. Archer was the first winner, having walked to Melbourne from Sydney. Archer won again the next year – unsurprisingly becoming the first horse to win the race twice. Phar Lap won his one and only Melbourne Cup in 1930. In 2005, Makybe Diva became the first horse to win the race three times. Continuing the Melbourne theme, November 1956 saw the opening of the Summer Olympics, which was the first time that athletes lived in an athletes village during the games.

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PROPERTY REPORT

Last month, we reported a small fall in house prices across the country, led by a fall in Australia's largest market, Sydney. October provided a few more indications that property markets might be cooling a little.

Property analysts Corelogic reported a fall in auction clearance rates for the September quarter compared to the previous June quarter. The National average clearance rate was 67.8% (capital cities only). This was down from 71.7% in the June quarter. Again reflecting the way its population dominates the national statistics, Sydney's clearance rate of 66.8% was a large driver of the fall.

That said, the Melbourne market actually had the highest number of auctions for the quarter, with just over 13,000 houses being offered for sale by this process. It's clearance rate was also the highest in the country, with 72.6% - consistent with our report last month that Melbourne's property prices continue to rise even while other capital cities show weakening property price growth.

The term 'clearance rate' refers to the number of properties sold during the actual auction. So, around one third of homes that went to auction did not sell at that auction. Where a property is 'passed in,' or not sold at the auction because no one has offered a price acceptable to the vendor, in most places the process is then for the vendor to negotiate with the highest bidder from the auction. However, there is no rule that prevents the vendor from also negotiating with anyone else.

So, a property that does not sell at auction basically becomes one being sold by private negotiation.

Real estate agents typically love auctions. This is not necessarily because auctions will get the highest price - it has a lot more to do with the free advertising that an entertaining auctioneer achieves for his or her real estate agency. Remember, the typical real estate advertising board devotes at least as much space to advertising the real estate agency as it does to advertising the home. Indeed, calling this advertising free is probably a misnomer: typically, the vendor *pays* the auctioneer to conduct the auction.

There is no hard and fast rule that selling a house by auction leads to higher or lower prices. In 2015, Corelogic conducted an analysis of private and auction results in various suburbs of Melbourne. They concluded that auctions achieved higher prices in most suburbs, but not all. Of course, these were also suburb wide results - it is not actually possible to compare whether a specific property would achieve a better price being sold by one or the other method.

Regardless of whether auctions are the best method for selling a home, it is generally accepted that auction clearance rates are an indicator of demand in the market. Where demand is higher, clearance rates are higher. So, falling clearance rates do indicate shrinking demand - although as we reported last month, that is not necessarily translate into lower prices, so much as lower price *growth*.

Share Market Report

October was a good month for the sharemarket - provided that you bought your shares beforehand. The market rose around 3.5% for the month, with the increase being relatively steady across the month. In fact, the market finished higher on all but four days during the month.

You can see all this in the following graph (thanks, Google and Yahoo!):

If you were following the media during October you would have seen that it was the 30 year anniversary of the 1987 stock market crash. Unsurprisingly, many media articles ran under headlines such as "could we see another October crash."

Interestingly, October has generally been a positive month in the Australian market. This is in part because most Australian companies report profits in September - and declare the dividends that they will pay later in the year. 40% of the Australian sharemarket is dominated by banks and other financial institutions. Australia's banks are incredibly well incorporated into the general economy, which means that being a bank is not a long way short of owning a license to print money. Think of the rise of 'tap and go' infrastructure throughout Australian retailers. This technology is incredibly convenient and so it has quickly become very popular - to the point that more than half of all retail transactions are now performed electronically. Every time such a transaction takes place, a bank earns a fee.

And that is just with retail. Think of all the other ways that money changes hands in our economy (online banking and direct debits being two predominant methods). Almost all of them involve a bank, and people are willing to pay a small bank fee for the convenience and security that electronic transacting provides.

So, in September, banks typically report substantial profits and significant dividends. These dividends are payable in the following months, which often (but not always) sees significant buying push share prices higher.

Generally, the outlook for the Australian economy is a positive one. In August, the Reserve Bank reported that it expects annual growth of around 3% per year in the next few years. This is ahead of inflation, meaning that Australia will generally become wealthier. Given that all economic activity adds to banks profitability, this positive outlook is transferring itself into our sharemarket in the form of higher prices.

Some analysts would say that Australia's banks still look cheap. For example, in early October the ASX reported the following dividend yields for various Australian banks (the growth in prices during October will have reduced these slightly):

Bank	Yield
National Australia Bank Ltd	6.3% franked
AMP	5.95% franked
Bendigo And Adelaide Bank	5.94% franked
Bank of Queensland	5.9% franked
Westpac	5.85% franked
Commonwealth Bank	5.62% franked
ANZ	5.43% franked

The average dividend yield in the Australian market is typically between 4 and 4.5%. Remember, these companies and a few others like them constitute 40% of the Australian market. So, any broad-based investment into the market will have a strong representation of these companies.

Of course, it is now November and we need to be careful that we don't try to buy last month's sharemarket result. What these figures really underlie is that a broad-based exposure to the Australian sharemarket is likely to remain a good investment into the future. This is particularly the case if the two predominant forms of risk - specific risk and timing risk - are managed as effectively as possible

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Helping Adult Kids Buy Homes

First published on our website on October 6, 2017

Through no fault of their own, younger Australians are finding the housing market hard to enter. At the same time, their parents and grandparents are doing very well if they own a home. There is no point in waiting for an inheritance: the average age for receiving one of them is mid-50s. So, how can older Australians help their younger relatives get into their own home – and live near enough to visit often?

Here is a troubling statistic: in the eight years from 2006 to 2014, the wealth of Australians aged between 65 and 74 increased by an average of $200,000. That sounds good. But the wealth of Australians aged between 25 and 34 decreased on average over the same period. (source: the Grattan Institute).

This increase was entirely due to older people being more likely to own homes – and more likely to own those homes outright (that is, with no debt) – than their younger counterparts.

Unfortunately, in many places, since 2014 the differences have simply gotten worse, as house prices continue to rise. While older people probably enjoy the fact that their wealth is increasing through no effort of their own, 80% of people are parents. This means that most older Australians have children and grandchildren who may be struggling to buy a home – and perhaps especially to buy a home near grandma and grandpa.

Of course, eventually those children and grandchildren will inherit the wealth that is currently 'stored' in their older relatives' family homes. However, as people live longer, inheritances happen later in the life of the recipient. The average recipient of an inheritance is aged in their 50s. So inheriting money, unless it is from a grandparent, does not really help younger Australians enter the property market.

What's more, there is an inherent problem with inheritances: the older person has to die before they happen! The good news is that there are things that older Australians can do to assist their younger relatives to enter or move up within the property market. Strategies include things like the following:

- Buying a home in conjunction with an adult child, either as joint tenants or as tenants in common;
- Guaranteeing a loan to assist an adult child to buy his or her own home;
- Allowing some personal savings to be used to offset the younger generations' debt (there are a few ways to do this, depending on what a particular lender's processes are);
- The older client simply gifting some money to the adult child; or
- The older client making a 'soft loan' or a 'normal loan' to the adult child.

Each of these strategies have advantages and disadvantages. These advantages and disadvantages are too detailed for us to discuss them properly in a blog article such as this. But where an older person wishes to assist, then some combination of the above strategies can be very useful.

When selecting a strategy or strategies, what always needs to be borne in mind is what might happen in the future. An obvious thing that needs to be planned for is the younger person's relationship ending and a division of property needing to occur. Working backwards from an event like this, it becomes very important to structure the assistance appropriately so that the family's wealth remains as intact as possible.

If you would like to discuss how older generations can assist the next generation to purchase decent family home, please get in touch with us. Assisting young people to get started – and helping older people share their wealth with younger family members safely and intelligently – is one of the great pleasures of our work

Teaching Kids About Money

First published on our website on October 2, 2017

One of the things we most enjoy is helping people manage wealth across the generations. Most of our clients are working hard to give their kids (or their grandkids) a good start in life. So it makes sense that we teach those kids how to manage their money well. Here is our guide to doing just that.

This week we continue our theme of inter-generational financial planning. We turn our attention to the very young members of your family.

Unfortunately, the school system is not that great when it comes to teaching kids about managing money. So, if you have kids of your own, teaching them how to manage their money is your job. We want you to enjoy your parenting, and we want your kids to enjoy managing money. So here are our top tips for teaching kids about money.

Understand that they are watching you. Managing money is not just about words and numbers. Many things affect whether a person manages money well. These include things like temperament, personality – and whether people learn to spend money in order to feel better. (Retail therapy, anyone?)

Guess where kids learn about this 'emotional' side of managing money? By watching their folks at very close quarters for the first couple of decades of their lives. Like it or not, your kids will grow up to be very similar to you and their other parent. So the absolute best way to teach kids to manage their money well is to manage your own money well.

If you are not great at managing money yourself? Learn! It's fun, very useful and your kids will thank you for it one day.

Don't bother with kids' savings accounts. Many people (grandparents can be the worst) set up specific savings accounts for kids when they are born. These accounts usually pay virtually no interest – making them just about the worst place for the family to put money. Think about it: mum and dad are paying 5% (after tax) on their mortgage while junior is earning at most 1.5% (essentially also after tax) on their savings account. That makes no sense. Put the money into mum and dad's mortgage (or an offset account) and help the family be wealthier.

Let's say the grandparents get together and give $1,000 to a newborn baby. If mum and dad repay $1,000 off a loan with an interest rate of 5%, then they will save $1,653 in interest by the time bub turns 20. If bub invests it at 1.5%, he or she will make just $340 over the same period. Repaying the mortgage is almost 5 times better.

Remember what we said about the kids watching you? Well, don't let them watch the family do something dumb. Manage the money well and when the time comes, explain your thinking to the kids (see our last tip below).

And hold off on the savings account until the kids are old enough to make sense of them. Until then, let them handle cash.

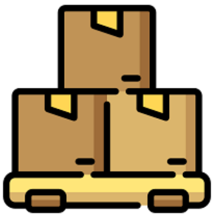
Let them blow a little bit now and learn how bad that feels. The other problem with savings accounts for really young children is that the money is in an account that the kids can't touch. The thinking is that, if the kids can't touch it, they will become automatic savers.

That is not actually correct. If the kids can't touch the money, then they are not actually saving it. (That is why compulsory super gets 'locked up' until you retire).

Learning to save means actively *deciding* not to spend. You can only *decide* not to spend if spending is an option. So, the money needs to be available to be spent if the kids are really going to learn how to save. And if spending is an option… then blowing it is an option as well. All kids will blow some money at some stage. Don't worry when they do. Let them feel bad – and don't bail them out!

After all, feeling bad is a great teacher. Letting the kids feel a little bit bad now is better than letting them feel very bad later in life – when they blow a much bigger amount.

Let your older kids sell stuff second hand. This is a great tip for getting kids to look after things of value. Things like school text books, uniforms etc can often be sold secondhand online. The better the condition, the higher the price. So, if you want your kids to look after their stuff, let them sell the stuff and keep the cash when they no longer need them.



There are a number of benefits here. One is that the kids are encouraged to think long term – what I do in February will have an impact on my cash flow in November. This is a really important lesson to learn (especially if they ever end up running their own business).

If you can get your kids thinking in terms of months and years ahead, you are 75% of the way there.

Secondly, if they look after their things, they will be less likely to need to buy replacement things.

Tell them you can't afford something. (Even if you can). There is nothing wrong with kids learning that there is a limit to what can be afforded. Kids are growing up in a consumer society that tells them to buy all the time. There is nothing wrong with learning that they can't afford everything. So telling kids that you can't afford something won't bruise them – it will liberate them.

You do need to contend with your own 'peer group pressure' here. Who likes to admit that they can't afford something? But try it. And recommend it to your friends as well. It might liberate them too!

If you will pardon the French, comedian George Carlin is credited with pointing out that "We buy sh*t we don't need, with money we don't have, to impress people we don't like." Not a great lesson to teach our kids.

Buy quality. The flipside of not buying "sh*t you don't need" is buying quality things that you do need. So, if something is a genuine need, like good food or a safe car, then buying the best quality you can afford is a great lesson. Very often, in the long run, the better quality thing lasts longer and ends up costing less anyway. That great deal on a car that turned out to be a money pit (and a health hazard)?

Remember, no one ever saved a lot of money buying home brand jam. If you are going to buy jam, buy the good stuff. But if you don't need the jam…

Put up a no junk mail sign and watch the ABC. OK. This might sound a bit extreme. But kids are bombarded with messages to buy things. McDonalds sponsors Little Athletics, for goodness sake.

Some estimates are that kids see 10,000 TV ads during their childhood. This is a lot of messages telling them to 'buy.' So, think about how you can give your kids a break from relentless messages to spend that commercial media gives them.

Remember, for a lot discretionary spending, out of sight means out of mind.

Maybe Netflix is a happy compromise. No ads.

Teach them their reading, writing and arithmetic. 'Financial literacy' is a buzzword these days. But financial literacy is really just a combination of two more basic skills – everyday numeracy and everyday literacy. Trust us, if kids are good at maths, this will translate to understanding money.

If they are not good at maths, work on it. And use money to teach them.

Explain. Explain. Explain. Talk to your kids about money. Explain that you have a mortgage and what that means. Explain when the media announces a famous personal declaring bankruptcy. Explain how taxes work. Explain how credit cards work when you are 'tapping and going' at the supermarket.

Explain big things about money and small things about money. Teach the kids that marketing can be sneaky. Tell the kids that it costs the cinema the same amount to make a small or a large popcorn. The cost of making the popcorn is basically nothing. But by offering two prices, the cinema gets to sell something 'small' to people with a little bit of money and sell something 'big' (and more expensive) to people with more money.

You knew that, didn't you?

Do you have your own tips? There might be some things that you have come across yourself that have helped you teach your kids. Please let us know – we would love to hear about them

The Legal Stuff

General Advice and Tax Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances.All strategies and information provided on this website are general advice only.

We recommend you seek personal financial and/or taxation advice prior to acting on anything you see on this website.

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